

GROSS INCOME TAX
INCOME TAX RATE FOR THE NJ-1080C, COMPOSITE RETURN
(01/07/05)

For tax year 2004, the NJ-1080C return has been modified to permit the use of two tax rates, 6.37% and 8.97%. Recent legislation creating a new top income tax rate of 8.97% retroactive to January 2004 provided a disincentive for nonresident individuals who had participated on a NJ-1080C in the past. The Division has therefore announced that the revised composite return applies the 6.37% rate on the income from the entity preparing and filing the NJ-1080C return for participating individuals with New Jersey sourced income of less than \$250,000 each. The 8.97% rate is applied to a participant with New Jersey sourced income of \$250,000 or greater.

Tax return preparers of the composite return will notice the following changes to the 2004 NJ-1080C return:

1. The face of the return has two column: one to report income for those participants reporting New Jersey income of less than \$250,000 from the entity and the other to report New Jersey income of \$250,000 and greater.
2. There are three supporting directories:
 - Schedule A, listing those participants with New Jersey income from the entity of less than \$250,000.
 - Schedule B, listing those participants with New Jersey income from the entity of \$250,000 and greater
 - Schedule C, listing the nonparticipants.

For years, the composite return has been a popular choice for those nonresidents with limited New Jersey sources of income. Even with the imposition of the highest individual income tax rate, nonresident individuals participated in composite returns as a matter of convenience. Individual nonresident returns are not necessary when all the New Jersey source income is reported and taxed on a composite return. Now, with the availability of two income tax rates, eligible nonresident individuals will still find participation in the NJ-1080C to be an acceptable alternative to filing an individual NJ-1040NR return.